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SUBJECT: The Japan Economic Scope Part 1 - June 21, 2007

Sensitive but unclassified. Please protect accordingly.

11. (U) This cable contains part one of the Japan Economic Scope from June 21, 2007. See septel for part two.

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13. (U) Ambassador Schieffer on U.S.-Japan Economic Relations

Ambassador Schieffer's address to the Yomiuri International Economic Society on June 15 covered the U.S.-Japan economic relationship. See the Embassy's website for the text of the speech.

14. (SBU) JUSBC Chair Called for Enhanced Cooperation for US-Japan FTA

On June 15, EMIN Hans Klemm met Junichi Ujiie, Chairman of the Japan-U.S. Business Council (JUSBC)/Chairman of Nomura Holdings. Concerning positive changes in public opinion on the prospects of a U.S.-Japan FTA during the past year, Ujiie said "we were lucky." There were no significant economic/trade problems between the two countries. He realized the objective of an FTA will require tremendous energy and commitment. Ujiie encouraged the Embassy and JUSBC to maintain good relations and assist each other in their consideration of an FTA.

Ujiie said that, notwithstanding what officials at the Trade (METI) and Foreign (MOFA) Ministries may be saying about a possible FTA with the United States, there are still big obstacles posed by the agricultural sector and the support network LDP politicians provide.

Ujiie also addressed the two governments' rising interest in climate change and said that Japanese businesses are very happy about this direction. (ECON: Satoshi Hattori)

15. (SBU) Japan and Doha Talks

Japan has made no secret of its desire to be included in the small group of key countries trying to iron out a deal to bring the Doha Trade Round to a successful conclusion. Trade Minister Amari and newly minted Agriculture Minister Akagi had been scheduled

to participate in G-6 talks on June 23 after a critical set of G-4 meetings conclude.

However, A MOFA contact told us that the political situation in the Diet forced Akagi to cut short his European trip, where he had been in Geneva, and return to Tokyo on June 21, and cancelled plans to return after the G4 outcome.

For more on Japan's posture with respect to the G-4 process, including what LDP Agriculture Policy Chairman Tadamori Oshima had to say on the subject during a June 15 meeting with the Ambassador, see Tokyo 2717. Also, EMIN Hans Klemm discussed Doha with MOFA DG for Economic Affairs, Yoichi Otabe, on June 18. See

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Tokyo 2742. (ECON: Nicholas Hill)

16. (U) Japan Signs "Economic Partnership Agreement" with Brunei

Japanese Prime Minister Shinzo Abe and Brunei's Sultan Hassanal Bolkiah signed an "economic partnership agreement" (EPA) -- essentially a free trade agreement -- between their countries in Tokyo on June 18, the first such agreement in which Japan successfully included provisions on energy, according to press reports.

Oil and gas account for nearly all of Japan's imports from Brunei, while about 70 percent of Japan's exports to Brunei consist of cars and auto parts.

The relative simplicity of the trading relationship between Japan and Brunei meant that the EPA negotiations proceeded rapidly, concluding successfully after only one year. For Japan, the Brunei EPA establishes a precedent where by one of its trading partners has agreed to consultations in the event of "any new energy regulatory measure that substantially affects the transportation, transmission or distribution, purchase or sale of energy good" and "sympathetic consideration to views presented by the other Party in the course of such consultation."

The Japanese will likely push for similar commitments from Australia and the Gulf Cooperation Council, two other major energy suppliers currently negotiating EPAs with Japan. (ECON: Chris Wurzel)

17. (SBU) Japan's Views on U.S. Role in Regional Integration and Bilateral FTAs

Tokyo 2715 provides an insightful overview of this topic.

18. (SBU) Japan Still Dragging Feet on Ag Tariff Caps?

Japan joined the Group of 10 food importing countries in issuing

a statement in Geneva on June 17 expressing opposition to substantial cuts in the tariff cap level as part of the Doha Round.

Nikkei reported that Agriculture Minister Akagi also stated Japan's opposition to large overall tariff reductions. Discussions in the Doha negotiations for agricultural tariff reductions had ranged in the 60-85 percent range, but Japan according to Nikkei, would like more modest reductions. Japan also wants to retain more sensitive tariff lines.

Meanwhile, in advance of critical G-4 meetings this week, the Agriculture Ministry (MAFF) released a paper on its web site evaluating WTO Agriculture Negotiation Chair Falconer's initial challenge paper issued in April. MAFF understands that Falconer's paper is intended to vitalize negotiations on a multilateral basis, but it is particularly concerned that the New Zealander is too ambitious on sensitive products and not ambitious enough on domestic supports.

MAFF argues that the text is unbalanced. As proposed by Falconer, the United States would be allowed to maintain current support levels, which in 2005 was about \$19 billion overall. At the same time, the paper, according to MAFF, calls for too much of a reduction in the number of sensitive items.

The MAFF document points out that Falconer's proposals on tariff reduction rates and special products would disadvantage the European Union and developing countries.

For the MAFF paper in Japanese, see the following link: MAFF's Evaluation of Agriculture Negotiation Chair Ambassador Falconer's Initial Challenge Paper Issued on April 30. (ECON: Nicholas Hill/Ryoko Nakano)

19. (SBU) Beef Talks Start June 27 -----

Bilateral talks at the experts level are set to begin June 27 in Tokyo. The United States would like to see emerge out of these

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meetings an agreement on language for a GOJ recommendation to Japan's independent Food Safety Commission (FSC) that Japan adopt the standards of the International Animal Health Organization (OIE) concerning trade of beef.

The OIE pronounced last month that U.S. beef is in effect safe -- or in a "controlled risk" category -- from BSE and should not be subject to the sort of onerous trade restrictions that Japan currently applies. The U.S. delegation will seek to answer any questions from the GOJ about the data that OIE members used in its evaluation.

The inter-agency delegation from Washington will include officials from USDA, APHIS, FSIS, FDA, and USTR, in addition to representatives from the Embassy. The Agriculture Ministry (MAFF) and Health Ministry (MHLW) will provide experts on the Japanese side and will be joined by representatives from MOFA where the meetings are set to take place. Japanese officials have informed us that the discussions could take 2-3 rounds. (ECON: Nicholas Hill)

110. (U) Beef Risk Communication Meeting in Tokyo a Yawner -----

The Japanese government is holding two risk communication meetings to explain to the public the results of its audits of U.S. slaughter facilities last month, in Tokyo on June 21 and Osaka on June 22.

The first meeting in Tokyo attracted some 120 people, including about 20 from the press. NHK and a couple of other TV networks were on hand. We have not seen the media coverage yet, but according to an ECON FSN on hand, the event was not energy-filled. The audience came primarily from industry groups, including

restaurant chains, but consumer groups and private individuals asked most of the questions. Among subjects raised, concern was expressed about the fact that the United States has not implemented a total ban on bone-in-meat feed. One consumer asked about the violations of the current export agreement that have been widely reported in recent months.

The GOJ officials from the Health (MHLW) and Agriculture (MAFF) Ministries were generally careful and balanced in their presentations.

The audience was largely relaxed, with some individuals dozing off during the afternoon meeting. (ECON: Nicholas Hill/Ryoko Nakano)

11. (U) GOJ Urged to Increase ODA Budget to Strengthen Diplomacy

On June 14, the Liberal Democratic Party (LDP) Policy Research Council (PARC) and the Special Committee on External Economic Cooperation chaired by Tatsuya Ito, member of the House of Representatives, released a report to be incorporated in the LDP's "Action Plan 10" recommending steps to strengthen Japan's diplomatic power by increasing the Official Development Assistance (ODA) budget.

According to the report, diplomacy has now entered an era of "mega competition" that requires the Government of Japan (GOJ) to change the current trend of shrinking ODA levels.

The report recommends that the ODA budget should stress: building a leadership role for Japan in environmental issues; achieving the Millennium Development Goals and Human Security Projects; establishing Japanese-style infrastructure in Asian economies; securing energy resources; and creating an "Arc of Freedom and Prosperity" in Eurasia. The recommendation further notes that in the future the activity of the Self Defense Forces and ODA should be linked in peace keeping operations.

To achieve these goals, the report calls on the GOJ to achieve the target that Japan already pledged of increasing ODA by \$10 billion between 2005 and 2009 and recommends that the government set a further target of increasing the ratio of ODA to GNP to 0.5 percent. (ECON: Eriko Marks)

12. (U) Speedy Yen Loan Process

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On June 18, at the request of domestic business interests and the ruling LDP, MOFA along with MOF and METI announced that the GOJ will strive to shorten each phase of the yen loan process. Specifically, three main measures regarding yen loans will be considered, including shortening the time frame by half for those projects where the Japan International Cooperation Agency (JICA) is involved in the formulation.

According to a press report, there are about 30 to 40 new projects a year. The total loan amount for JFY 2006 was more than 800 billion yen. (ECON: Eriko Marks)

13. (U) Cabinet Approves CEFP Basic Policies for Economic and Fiscal Management

The Cabinet officially approved the Council for Economic and Fiscal Policy (CEFP)-drafted honebuto (Basic Policies for Economic and Fiscal Management) this week. Prime Minister Abe's first "big-boned" economic policy document will serve as the blueprint for Japan's macroeconomic policy over the next year. Amounting to 55 pages, nearly twice the size of its Koizumi-era predecessors, the document covers five chapters and enunciates six priorities designed to "create the foundations in which people can live without anxiety."

The priorities range from enhancing Japan's growth potential by boosting labor productivity; plans for strengthening Japan's financial and capital markets by the end of CY 2007; reaffirming a commitment to a full-fledged discussion of Japan's tax system in the fall; a pledge to review the Defined Contribution pension system; a call for a correction of economic and fiscal disparities among local governments; and a pledge to maintain a conservative fiscal spending stance.

Media reactions to the honebuto have been critical, ranging from assessments that it is a de facto campaign platform for next month's Upper House elections, that it is vague, that it refers to a potential EPA with the United States only as "a future challenge," and that it is a "laundry list of half-baked policies." A cable with Embassy analysis will follow shortly. (FINATT: Mateo Ayala)

¶14. (SBU) Japan Post, Sale of the Century

Japan Post -- a public corporation with assets the size of China's GDP -- begins a ten-year privatization process beginning October 1.

Tokyo 2716 provides a primer on the privatization process, the stake holders, the issues and the politics involved. (ECON: Marc Dillard)

¶15. (U) Rise in Part-time Workers Despite Falling Unemployment Rate

In April 2007, the unemployment rate fell from 4.0 to 3.8 percent, marking the first time in nine years that the rate had fallen below four percent, according to reports from the Ministry of Internal Affairs and Communications (MIC). As of 2007, the number of employed persons was 64.44 million, an increase of 760 thousand people. Conversely the number of unemployed persons was 2.68 million, a decrease of 160 thousand from the previous year.

At the same time, the number of non-regular workers including part-time and temporary workers is also increasing. Over the past five years, the proportion of non-regular employees has increased by more than 33 percent. Additionally, compared to full-time workers, wages, and benefits are not as competitive and are preceived to beunfairly low.

In response to international competition and cost cutting measures, more firms are hiring part-time workers to take over the responsibilities of full-time workers. By doing so, firms are not required to provide allowances, leave and other benefits that come with regular employment.

According to sources at the Council for the Promotion of

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Regulatory Reform (CPRR), rigidity in the labor market fuels the increase in part-time labor. Since Japanese law restricts a company's ability to fire a full-time employee, companies use temporary part-time workers on a contractual basis, thereby minimizing the risk of hiring someone they cannot then terminate (See Tokyo 02443 for more details).

The increase in non-regular employment greatly contributes to income disparities within urban cities, especially among women, who make up the bulk of non-regular employment. Our CPRR contact told us that, as a result of limitations in firing practices, firms tend to hire applicants from "brand name" schools, further widening the income gap. (ECON: Virsa Hurt)

¶16. (SBU) Stormy Shareholder Meeting Season Raises Renewed Concerns Over Foreign Funds

Late June is the season when most listed companies in Japan hold their annual general meetings. This year, an unusual number of

contentious sessions are expected as more than 200 companies seek approval for pre-emptive anti-takeover measures in the wake of the May 1 introduction of triangular mergers. Some companies are also seeking shareholder approval to implement previously adopted defensive measures against unsolicited takeover bids.

This latter category includes Osaka-based Bull-Dog Sauce, which is fighting an unsolicited 1700 yen per share bid from U.S. investment fund Steel Partners. Bull-Dog's stock has risen 18 percent since the bid was announced May 16. This is the third time this year Steel Partners has sought control of a Japanese company it claims is undervalued. Previous attempts have failed.

At its June 24 AGM, Bull-Dog will ask shareholders to approve a controversial share warrant plan under which current shareholders would receive three new shares for every share held. However, the warrants issued to Steel Partners will not be converted into common stock but payable in cash, effectively diluting the fund's holdings by three quarters.

Steel Partners filed suit in Tokyo District Court seeking to block the company from introducing the shareholder's resolution and, separately, to declare the warrant plan illegal. Courts have previously struck down defensive measures considered detrimental to shareholder interests. On June 19, Steel Partners withdrew the first suit; the second will go forward.

Steel Partners' President and CEO Warren Lichtenstein addressed a packed news conference in Tokyo on June 12 and blasted proposals from Japanese corporate managements that require investors who purchase a large amount of shares to disclose their objectives and business plans as "the worst kind in the world." He charged that such plans undermine corporate value and "violate the principle of shareholder equality under corporate law." Steel Partners, he insisted, "have never done greenmail and we never will."

Lichtenstein's statements struck a raw nerve with some Japanese officials. METI Administrative Vice Minister Takao Kitabata, at a June 14 news conference, launched a 10-minute long attack on Steel Partners, claiming the fund had misrepresented Bull-Dog's positions and charged that its bid, if successful, would not raise corporate value.

The following day, METI Minister Akira Amari delivered a shorter but equally sharp attack against Steel Partners calling it "exactly a greenmailer." "If one has no intention of participating in the management but only wants to raise the share price and sell at a profit, such activities do not increase corporate value," he said.

Amari concluded with a sly pun implying the fund's name should really be "Steal Partners." (ECON: David DiGiovanna)

17. (U) Recent Major Economic Indicators -----

The Cabinet Office left its overall assessment unchanged from the previous month, noting that "the economy is recovering, despite some weakness in industrial production."

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The monthly economic report, submitted to the Cabinet on June 18, confirmed that Japan's economy has entered its 65th month of expansion, an ongoing postwar economic expansion record, although at relatively low rates.

The report said that private consumption is showing signs of a pickup with improvements in the employment situation, while it indicated the need to pay attention to the impact of oil prices. The Bank of Japan (BOJ) report, released on June 15, also left unchanged its core economic assessment, indicating that the economy is "expanding moderately." BOJ said that household income has continued to rise modestly, and in this situation, personal consumption is firm. It notes

that exports have continued to increase, and business investment has also continued to expand against the background of high corporate profits. (FINATT: Shuya Sakurai)
DONOVAN